



# **Legislative Audit Division**

**State of Montana**

**Report to the Legislature**

**December 2001**

## **Financial-Compliance Audit**

**For the Two Fiscal Years Ended June 30, 2001**

## **Montana Department of Transportation**

**This report contains seven recommendations relating to:**

- ▶ **Developing, implementing and monitoring internal controls.**
- ▶ **Internal Service Fund rates commensurate with cost.**

**Direct comments/inquiries to:  
Legislative Audit Division  
Room 160, State Capitol  
PO Box 201705  
Helena MT 59620-1705**

**01-14**

**Help eliminate fraud, waste, and abuse in state government. Call the Fraud Hotline at 1-800-222-4446 statewide or 444-4446 in Helena.**

## **FINANCIAL-COMPLIANCE AUDITS**

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 1999, was issued on March 30, 2000. The Single Audit Report for the two fiscal years ended June 30, 2001, will be issued by March 31, 2002. Copies of the Single Audit Report, when available, can be obtained by contacting:

Single Audit Coordinator  
Office of Budget and Program Planning  
State Capitol  
Helena MT 59620  
Phone (406) 444-3616

Legislative Audit Division  
Room 160, State Capitol  
PO Box 201705  
Helena MT 59620-1705

### **MEMBERS OF THE LEGISLATIVE AUDIT COMMITTEE**

Senator John Cobb  
Senator Jim Elliott  
Senator Dan Harrington  
Senator Ken Miller  
Senator Corey Stapleton  
Senator Jon Tester, Chair

Representative Joe Balyeat  
Representative Dee Brown  
Representative Bill Eggers  
Representative Hal Jacobson  
Representative Jeff Pattison, Vice Chair  
Representative David Wanzenried

# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
John W. Northey, Legal Counsel



Deputy Legislative Auditors:  
Jim Pellegrini, Performance Audit  
Tori Hunthausen, IS Audit & Operations  
James Gillett, Financial-Compliance Audit

December 2001

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana Department of Transportation for fiscal years 1999-00 and 2000-01. Included in this report are recommendations where the department can improve internal controls related to construction projects, timely deposits, disbursements, monitoring sub-recipients of federal funds, and improve compliance with specific state law. The department's written response to audit recommendations is included in the back of the report.

We thank the director and department personnel for their cooperation and assistance throughout the audit.

Respectfully submitted,

*(Signature on File)*

Scott A. Seacat  
Legislative Auditor

# **Legislative Audit Division**

---

## **Financial-Compliance Audit**

**For the Two Fiscal Years Ended June 30, 2001**

## **Montana Department of Transportation**

Members of the audit staff involved in this audit were Geri Hoffman, Hollie Koehler, Angie Lang, Charles Nemec, Paul J. O'Loughlin, and Vickie Rauser.

## Table of Contents

Appointed and Administrative Officials .....	ii
Report Summary.....	S-1
<b>Introduction.....</b>	<b>1</b>
Introduction .....	1
Background .....	2
<b>Prior Audit Recommendations.....</b>	<b>5</b>
Prior Audit Recommendations .....	5
<b>Findings and Recommendations .....</b>	<b>7</b>
Internal Controls .....	7
Securing Federal Funds for Contractor Claims .....	7
Untimely Deposits of a Contractor Recovery .....	9
Undetected Overpayment.....	10
Accounting for Cash Change Funds .....	11
Untimely Distributions to Counties .....	12
Subrecipient Monitoring .....	13
Internal Service Fund Rate Review .....	13
<b>Independent Auditor’s Report &amp; Financial Schedules.....</b>	<b>A-1</b>
Independent Auditor’s Report.....	A-3
Schedule of Changes in Fund Balances For the Fiscal Year Ended June 30, 2001 .....	A-5
Schedule of Changes in Fund Balances and Property Held in Trust For the Fiscal Year Ended June 30, 2000 .....	A-6
Schedule of Total Revenues & Transfers-In For the Fiscal Year Ended June 30, 2001 .....	A-7
Schedule of Total Revenues & Transfers-In For the Fiscal Year Ended June 30, 2000 .....	A-8
Schedule of Total Expenditures & Transfers-Out For the Fiscal Year Ended June 30, 2001 .....	A-9
Schedule of Total Expenditures & Transfers-Out For the Fiscal Year Ended June 30, 2000 .....	A-10
Notes to the Financial Schedule .....	A-11
<b>Department Response</b> Montana Department of Transportation.....	B-3

## **Appointed and Administrative Officials**

---

			<u>Term Expires</u>
<b>Montana Transportation Commission</b>	Shiell Anderson, Chair	Livingston	2005
	Nancy Espy, Vice Chair	Broadus	2003
	Meredith Reiter	Billings	2005
	Dan Larson	Libby	2003
	Dan Rice	Great Falls	2005
<b>Aeronautics Board</b>	John Rabenberg, Chair	Fort Peck	2003
	Joann Eisenzimer, Vice Chair	Cascade	2003
	Craig Denney	Billings	2003
	Bob Palmersheim	Billings	2003
	Frank Bass	Moore	2005
	Lanny Hanson	Glasgow	2005
	Will Metz	Laurel	2005
	Kenneth Tolliver	Billings	2005
	George Werner	Dillon	2005
<b>Department of Transportation</b>			
<b>Administrative Officials</b>	David A. Galt, Director		
	Jim Currie, Deputy Director		
	Russ McDonald, Administrator, Human Resources		
	Tim Reardon, Chief Counsel, Legal Services		
	Monte Brown, Administrator, Administration Division		
	Mike Ferguson, Administrator, Aeronautics Division		
	Gary Gilmore, Administrator, Highways & Engineering Division		
	John Blacker, Administrator, Maintenance Division		
	Drew Livesay, Administrator, Motor Carrier Services Division		
	Patricia Saindon, Administrator, Rail, Transit & Planning Division		
<b>District Administrators</b>	Loran Frazier – Missoula		
	Jason Giard – Butte		
	Michael Johnson – Great Falls		
	Bruce Barrett – Billings		
	Bill McChesney – Glendive		

## Report Summary

---

This report documents the results of our financial-compliance audit of the Montana Department of Transportation for the two fiscal years ended June 30, 2001. We issued an unqualified opinion on the financial schedules presented in this report. This means the reader may rely on the presented financial information and the supporting information on the state's accounting system.

This report contains seven recommendations directed to the department. Six recommendations relate to developing, implementing and monitoring internal controls related to securing federal funds on a timely basis, timely deposits, disbursements, establishing procedures to monitor all federal funds subgranted, and reconciling cash change funds held outside the state treasury. One recommendation relates to compliance with specific state law concerning calculation of vehicle rental rates in the Internal Service Fund.

### Recommendation #1

We recommend the department:

- A. Complete work as soon as possible to determine Federal Highway Administration (FHWA) participation in the three contractor claims totaling \$1,310,000.
- B. Communicate with the FHWA concerning contractor claims as required by federal regulations and department policy and procedures. .... 9

Department Response: Concur. See page B-4.

### Recommendation #2

We recommend the department develop and implement procedures to ensure timely deposits in accordance with state law. .... 10

Department Response: Concur. See page B-4.

## Report Summary

---

### Recommendation #3

We recommend the department:

- A. Develop and implement procedures for monitoring tribal disbursements to ensure overpayments do not occur.
- B. Obtain reimbursement of \$223,000 for the overpayment made to the tribe. .... 11

Department Response: Concur. See page B-5.

### Recommendation #4

We recommend the department:

- A. Monitor existing procedures to ensure appropriate accounting for the issuance, custody, and return of cash change funds.
- B. Correctly record the cash change funds on the state's accounting system. .... 12

Department Response: Concur. See page B-5.

### Recommendation #5

We recommend the department establish and implement procedures to ensure required aviation registration fee distributions are made in accordance with state law. .... 12

Department Response: Concur. See page B-5.

### Recommendation #6

We recommend the department establish and implement procedures to ensure all federal funds subgranted are monitored in accordance with federal regulations..... 13

Department Response: Concur. See page B-6

### Recommendation #7

We recommend the department:

- A. Require the Maintenance and Administration Divisions to coordinate efforts in the development of its internal service fund rates.



## Report Summary

---

- B. Complete and document reconciliations between management systems and primary accounting records and maintain documentation to support factors used in rate calculations.
- C. Determine the profit or loss in the internal service funds annually as required by OMB Circular A-87 and modify future rates as needed ..... 16

Department Response: Concur. See page B-6.

# Introduction

---

## Introduction

We performed a financial-compliance audit of the Montana Department of Transportation (department), for the two fiscal years ended June 30, 2001. The objectives of the audit were to determine if:

1. The department's administrative and accounting controls were effective for the audit period.
2. The department complied with applicable state and federal laws and regulations during the audit period.
3. The department implemented prior audit recommendations.
4. The department's financial schedules present fairly the department's changes in fund balances and results of operations for the two fiscal years ended June 30, 2001.

We performed procedures to evaluate charges for services for costs incurred in the department's Internal Service Funds as required by section 17-8-101(6), MCA, and found the charges and fund equity to be reasonable for the operations in these funds except for the issue beginning on page 13.

In summary, we found the Motor Pool rates adopted in the general appropriations act for the 2003 biennium were not the final rates the department had developed. Upon recognizing errors with the rates first submitted to the Office of Budget and Program Planning, the department revised the rates upward. The appropriations subcommittee approved the higher rates for inclusion in the general appropriations bill. During the bill preparation process the revised rates were not included in the bill, and the original rates were adopted without change. The department has estimated the Motor Pool will have losses approximating \$682,000 for the 2003 biennium. The department is in the process of identifying and implementing a combination of cost-cutting and funding solutions for the biennium to mitigate the effect of the errors in rates. These include delaying the purchase of replacement and fleet expansion vehicles, changing the type and frequency of maintenance activities, delaying vehicle disposition, modifying the INTERCAP loan

## Introduction

---

payment schedule to a monthly basis (currently it is annual), and securing inter-entity loans for operating cash.

In accordance with section 5-13-307, MCA, we analyzed the costs to implement the recommendations in this report and believe the cost is not significant.

---

## Background

The Montana Department of Transportation is responsible for establishing a public transportation system that emphasizes safety, environmental preservation, cost-effectiveness, and quality. The primary responsibilities of the department are project design; administration of construction contracts; preservation and maintenance of a safe and environmentally sound state highway system; enforcement of statutes and regulations relating to vehicle weight, size, licensing, fuel, and safety; providing protection and safety in aviation; and enforcing compliance with motor fuel tax laws and administering license taxes on gasoline and diesel fuel distributors.

The department is under the direction of the Transportation Commission (commission) and the director. The commission is comprised of five members appointed by the governor and confirmed by the Senate for four-year terms. The commission determines construction priorities, selects construction projects, and allocates funding to state, local, and national highway system projects. It also classifies highways as federal aid, primary, and off-system in the state maintenance system. The commission may delegate certain functions to the director, who is appointed by the governor and confirmed by the Senate.

The department had approximately 2,100 full-time equivalent positions during fiscal year 2000-01. The department's primary sources of funding during the audit period were federal funds and motor fuel taxes.

During the audit period, department activities were organized under nine programs as described below:

General Operations - provides administrative support services including accounting, budgeting, planning, program development, research, legal services, computer processing, and human resources. The administration division enforces compliance with motor fuel tax law and collects taxes on gasoline and diesel fuel.

Construction - is responsible for project planning through construction. This includes project design, right-of-way acquisitions, issuing contract bids, addressing environmental concerns, awarding contracts, and administering construction contracts. Personnel in five districts (Billings, Butte, Glendive, Great Falls, and Missoula) and in Helena supervise and monitor work done by private contractors.

Maintenance - is responsible for preserving and maintaining the state's highway systems and its related facilities. Activities include patching, repair, snow removal, and sanding.

Motor Pool - operates and maintains a fleet of vehicles available to state employees in Helena to conduct official business. The cost of services is recovered through rental and lease fees.

Equipment - purchases, distributes, and maintains all highway equipment and vehicles for use within the department. The equipment is rented to programs within the department, primarily construction and maintenance.

Interfund Transfers - established to record the transfer of funds between accounting entities and to the Debt Service Fund.

Motor Carrier Services - enforces statutes and regulations related to vehicle weight, size, licensing, fuel, and safety on the state's highways and collects gross vehicle weight fees.

Aeronautics - provides protection and safety in aeronautics. The division operates the West Yellowstone airport and maintains 12 other state-owned airports. The division facilitates the maintenance

## Introduction

---

of airports, registers aircraft and pilots, and coordinates and supervises aerial search and rescue operations.

Transportation Planning - provides technical and monetary assistance to local communities and transit authorities for planning, organizing, operating, and funding public transportation systems. This program administers federal funds for development and operation of transportation systems and administers the State Rail Plan.

# Prior Audit Recommendations

---

## **Prior Audit Recommendations**

The prior audit report for the two fiscal years ended June 30, 1999, contained twelve recommendations to the department. The department implemented eight, did not implement three, and one is no longer applicable.

The three recommendations not implemented regarding cash change funds, monitoring subgranted federal funds, and Internal Service Fund rate review are discussed in our report beginning on pages 11 and 13.



# Findings and Recommendations

---

---

## Internal Controls

Department management is responsible for establishing and maintaining an adequate system of internal control. The system should provide management with reasonable assurance that resources are safeguarded against waste, loss and misuse. An important element of internal control is management monitoring. Monitoring consists of a process or processes that assess not only the effectiveness of a control, but also provide assurances that control procedures are being followed. Overall, department management has established control processes, but in some cases has not appropriately monitored the controls to ensure management's directives are carried out.

The following sections discuss areas where the department could improve control processes either by establishing and implementing controls, improving existing control procedures, or by management monitoring of control systems that are already in place and operating.

---

## Securing Federal Funds for Contractor Claims

A contractor claim occurs when a contractor and the department disagree about compensation to cover a contractor's additional costs to complete a project. Many construction projects are jointly funded with state monies and funds provided by the U.S. Department of Transportation and administered by the Federal Highway Administration (FHWA). If the FHWA approves a claim settlement, it will participate in the claim costs in proportion to its share of the project. We noted several projects where contractor claims had been filed and paid by the department. The department did not have approval of the claim payment from the FHWA in order to secure federal participation in proportion to the federal share of the project.

We found three federal aid projects where approximately \$1,310,000 in claims were settled and paid with state funds but agreement with the FHWA to participate in the cost was not secured prior to settlement or within a reasonable time thereafter. One of the claim payments was made in July 1999, one in December 2000, and one in June 2001. As of August 2001, the department had not secured agreement from FHWA to participate in these costs.



## Findings and Recommendations

If FHWA participates, the federal share of the claim would be \$1,169,660. Table 1 below shows the amount of the claims and the federal share that would be paid by FHWA if they agree to participate. The table also shows the potential amount of lost interest to the General Fund of \$70,524. Highway/Engineering staff said historically, FHWA has agreed to participate in the cost of contractor claims. Federal guidance in the Contract Administration Core Curriculum Participants Manual and Reference Guide 2001 Chapter IIIB Section 5 states, "If the States are diligent and pursue resolution of a claim through the courts or arbitration (including appeals), consulting with and keeping FHWA fully informed throughout the process, FHWA will share in the results."

**Table 1**  
**Potential Lost Interest to the General Fund Due to Delays by MDT in Obtaining Federal Participation in the Payment of Contractor Claims**

<b>Claim Amount Paid by MDT</b>	<b>Date Paid</b>	<b>Federal Participation Rate</b>	<b>Federal Share</b>	<b>Elapsed Days From Date Paid (1)</b>	<b>Potential Lost Interest</b>
\$ 549,000	June 6, 2001	0.8658	\$ 475,324	78	\$ 5,444
181,000	December 5, 2000	0.9124	165,144	261	6,330
<u>580,000</u>	July 7, 1999	0.9124	<u>529,192</u>	<u>756</u>	<u>58,750</u>
<u>\$1,310,000</u>			<u>\$1,169,660</u>	<u>1,095</u>	<u>\$70,524</u>

(1) Elapsed number of days from payment date until August 23, 2001.

**Source: Compiled by Legislative Audit Division from department records.**

The procedures for claim adjustment and disputes are defined in the Standard Specifications for Road and Bridge Construction. The general process for contract claim procedure is outlined in the department's Construction Manual which states, "The FHWA is to be promptly provided with copies of written claim notices where federal participation is involved. The FHWA will be informed on progress to resolve such claims."

## Findings and Recommendations

---

Department staff said workloads and changes in personnel assignments caused delays in communicating with FHWA regarding the status of claims and the results of settlements. Staff indicated there have been personnel reassignments and the resolution of these claims with FHWA is now a top priority.

Even though the FHWA may eventually participate in the costs, the department did not follow department policy or federal regulations in regard to communicating the status of contractor claims for federal aid projects with the FHWA. If, for valid reasons, the department is not able to secure FHWA approval of a claim settlement before it occurs, steps should be taken to resolve the participation of FHWA within a reasonable time.

### **Recommendation #1**

**We recommend the department:**

- A. Complete work as soon as possible to determine Federal Highway Administration (FHWA) participation in the three contractor claims totaling \$1,310,000.**
- B. Communicate with the FHWA concerning contractor claims as required by federal regulations and department policy and procedures.**

---

### **Untimely Deposits of a Contractor Recovery**

In fiscal year 2000, the department recovered \$319,823 from a contractor as a result of successful litigation on a project that was joint funded with the FHWA. The department received the settlement check on January 14, 2000, but did not deposit it until April 28, 2000. Accounting staff indicated they were holding the check on direction from the legal department. Department legal staff said they instructed someone in the Administrative Division to deposit the check two days after receiving it.

State law requires timely deposits of receipts to maximize interest earnings and reduce risk of loss or theft. The department also has a fiduciary responsibility to reimburse the FHWA, in a timely manner in proportion to their participation on the project. While the

## Findings and Recommendations

---

department did reimburse the FHWA for its share, the delay in depositing caused delay in reimbursement to the FHWA.

The department also received a check for approximately \$51,546 for court-ordered "interest and costs" associated with this same recovery. The check, received on March 30, 2000, was not deposited until June 30, 2000. When the check was finally deposited, expenditures were abated in the contractor payments account rather than recording miscellaneous revenue. Department staff could not explain why the checks were not deposited timely or why the interest was not recorded correctly on the state's accounting records.

The total amount of lost interest to the state's General Fund in fiscal year 2000, as a result of the above untimely deposits was approximately \$5,331. The department should improve operating procedures over receipts received in the legal division to ensure deposits are made timely in accordance with state law.

### **Recommendation #2**

**We recommend the department develop and implement procedures to ensure timely deposits in accordance with state law.**

---

### **Undetected Overpayment**

Under negotiated agreements, the department makes quarterly payments to the Native American Tribes in the state to refund the motor fuels taxes that are paid by the tribes and tribal members. In fiscal year 2001, the department mistakenly made an extra payment to one tribe for approximately \$223,000 and had not detected the error until we questioned the extra payment.

Management is responsible for establishing a system of internal controls, which includes monitoring by management to provide accountability for the assets under its control. Appropriately monitoring the payments would ensure the tribes receive only four payments per year as provided for in state law and the negotiated agreement with the tribe.

## Findings and Recommendations

---

Personnel said the payments were set up as automated recurring vouchers. Payments normally made in July 2000 and October 2000, for the preceding quarters were supposed to be suspended due to a renegotiating process between the tribe and the department; however the July payment was actually made. After the negotiations were complete, the department issued a check to cover the July and October payments, which they believed were in arrears, and this resulted in the overpayment. The department attributed human error as the reason for the extra payment. As of August 28, 2001, lost interest to the General Fund as a result of the overpayment was approximately \$7,500.

Since this activity is recorded in separate accounts, the department could have detected the error by monitoring the payment activity in the account before making payments. A department supervisor indicated the department has suspended the use of automated recurring vouchers and has requested the tribe return the extra payment.

### **Recommendation #3**

**We recommend the department:**

- A. Develop and implement procedures for monitoring tribal disbursements to ensure overpayments do not occur.**
- B. Obtain reimbursement of \$223,000 for the overpayment made to the tribe.**

---

### **Accounting for Cash Change Funds**

As part of our follow-up on a prior audit recommendation, we reviewed the accounting for cash change funds issued to the department's Motor Carrier Services (MCS) Division officers for use in the permitting process at weigh stations. As described below, the department has not reconciled the amount of cash change funds issued to the amount recorded on the state's accounting records.

The department represented to us and we confirmed that the amount of cash change funds on the accounting system was \$2,200, as of June 30, 2001. We requested a list of the cash change amounts and the individuals to whom they were assigned. The list provided by

## Findings and Recommendations

---

the department totaled \$1,900. As noted in our prior audit report, the department believes that some of the funds were returned and recorded as miscellaneous revenues instead of reducing the amount of cash change funds issued.

The department is responsible for establishing adequate controls related to the change funds in order to prevent theft or loss of cash and ensure the proper amount is recorded on the state's accounting records. The department attempted to reconcile the cash change funds issued to the state's accounting records but has not completed the reconciliation or recorded entries to properly record the cash change funds on the state's accounting records.

### **Recommendation #4**

**We recommend the department:**

- A. Monitor existing procedures to ensure appropriate accounting for the issuance, custody, and return of cash change funds.**
- B. Correctly record the cash change funds on the state's accounting system.**

---

### **Untimely Distributions to Counties**

Section 67-3-205, MCA, requires the department to make semi-annual disbursements of aircraft registration fees to the counties. The payments are required to be made between March 15 through March 30 and July 1 through July 15 each fiscal year. During fiscal years 2000 and 2001, all the distributions were outside the time frame established by state law.

Department personnel responsible for initiating the distributions said that they were busy and failed to get the payment process started. Personnel did not request payment until after the disbursement deadlines had passed. The department has not established procedures to ensure the distributions are made timely.

### **Recommendation #5**

**We recommend the department establish and implement procedures to ensure required aviation registration fee distributions are made in accordance with state law.**

## Findings and Recommendations

---

### **Subrecipient Monitoring**

---

In the previous two audits of the department we recommended the department establish procedures to ensure all federal funds subgranted are monitored in accordance with federal regulations. The department concurred with our prior recommendations and in a letter dated December 8, 2000, to the Office of Audit Resolution and Cost Policy at the Federal Department of Health and Human Services, the department represented that procedures have been implemented to obtain and review audit reports and include standardized contract language to address monitoring requirements.

The department was not able to provide us with documentation to support its contention that procedures or standardized compliance contract language had been implemented. The department should ensure that procedures are developed, implemented and monitored to comply with federal requirements.

#### **Recommendation #6**

**We recommend the department establish and implement procedures to ensure all federal funds subgranted are monitored in accordance with federal regulations.**

### **Internal Service Fund Rate Review**

---

The department operates two internal service funds, the Highway Equipment Fund and the Motor Pool Fund. In accordance with section 17-8-101(6), MCA, we performed procedures to evaluate the reasonableness of charges for services and fund equity in these funds. We found the charges for services and fund equity balances to be reasonable in each of the funds, except as discussed in the following sections.

#### **Highway Equipment Fund**

Highway equipment fund charges for services were not commensurate with costs for fiscal year 2000. Personal services and operating expenses exceeded revenues by \$1.48 million. Rate development files did not include support for the actual rate adjustment factor used in the rate. Personnel were unable to explain why a lower factor had been used. The department should ensure it maintains support for the fees charged each fiscal year.

## **Findings and Recommendations**

---

### Motor Pool

Motor Pool charges for services were not commensurate with costs for fiscal year 2000. The department calculated rates to cover estimated expenses of \$2.8 million, assuming vehicles would be driven about 8.6 million miles over the course of the year. Actual expenses for the year were slightly over \$3 million while revenues were approximately \$3.4 million. Charges for services revenues exceeded costs by \$416,340, or 13.8 percent. Actual miles driven during fiscal year 2000 were 10.2 million, an 18.6 percent increase over the anticipated total mileage.

### Rate Development Process

The department's Internal Service Funds are subject to restriction of both state and federal laws. Section 17-8-101(6), MCA, requires fees and charges in internal service funds be based upon commensurate costs. Section 17-7-123(6)(b), MCA, states in part, "... Fees and charges in the internal service fund type must be approved by the legislature in the general appropriations act. Fees and charges in a biennium may not exceed the level approved by the legislature in the general appropriations act effective for that biennium." Federal Office of Management and Budget Circular A-87 includes regulations pertaining to billed central services, such as the Motor Pool. Attachment C of that circular states, in part, "...Billing rates used to charge Federal awards shall be based on the estimated costs of providing the services...A comparison of the revenue generated by each billed service...to the actual allowable costs of the service will be made at least annually, and an adjustment will be made for the difference between the revenue and the allowable costs. These adjustments will be made through one of the following adjustment methods...(c) adjustments to future billing rates..."

The department's rate development process for its internal service funds includes identifying cost elements related to each of its internal service fund operations, estimating the amount of each cost element to be incurred in each year of the next biennium, estimating the

## Findings and Recommendations

---

usage of the equipment, and calculating the rates necessary to cover those estimated costs.

We reviewed the department's rate development process for both the Highway Equipment Fund and the Motor Pool Fund. We identified areas where the department could refine its rate development process to more precisely estimate costs and ensure its compliance with the state and federal regulations discussed above. These areas include loan principal payments; reconciliations between primary accounting records and management subsystems; consideration of prior year profits or losses; internal department reviews; and interim rate modifications.

The department uses INTERCAP loans from the Board of Investments to finance acquisition of vehicles. The Motor Pool rate for fiscal year 2000 included a factor designed to make up the difference between estimated depreciation expense and the amount of loan principal to be repaid during the year. Repayment of loan principal is not an expense and should not be included in the rate structure. The allowable cost factor, related to loan principal, is depreciation expense. The revenue received from that factor should be sufficient to make the loan principal payments during a fiscal year. The department's INTERCAP loans have a five-year repayment schedule; therefore, using a five-year useful life for both accounting and rate development purposes should generate the revenue necessary to make loan principal payments.

The department does not formally reconcile its equipment and motor pool management systems with its primary accounting records. Compliance with state and federal laws concerning Internal Service Funds is measured using the primary accounting records. A reconciliation process would provide the department assurance over the integrity of the cost information used for rate development and would decrease the risk of calculating rates not commensurate with costs.



## Findings and Recommendations

---

Rates calculated for the 2001 biennium for both the Highway Equipment Fund and the Motor Pool Fund did not include recognition of prior years' profits or losses. The highway equipment's fund balance increased by approximately \$9.3 million and the motor pool's fund balance increased by approximately \$897,000 during the 2001 biennium. As noted above, federal regulations require an annual assessment of profit or loss being figured into future rates as an acceptable solution. The department should revise its rate development procedures to specifically include the profits or losses. State law does allow the department to charge rates lower than those adopted by the legislature in the general appropriations act.

### Summary

The issues described above indicate the department should revise its rate setting process. Both the Maintenance and Administration Divisions should participate in the process. Maintenance Division personnel are familiar with the day-to-day operations of the Highway Equipment and Motor Pool Funds, while Administration Division personnel are more familiar with state and federal laws and regulations, as well as accounting principles. The department should clearly delineate each division's responsibilities and the implementation of those responsibilities should be documented.

### **Recommendation #7**

**We recommend the department:**

- A. Require the Maintenance and Administration Divisions to coordinate efforts in the development of its internal service fund rates.**
- B. Complete and document reconciliations between management systems and primary accounting records and maintain documentation to support factors used in rate calculations.**
- C. Determine the profit or loss in the internal service funds annually as required by OMB Circular A-87 and modify future rates as needed.**

# **Independent Auditor's Report & Financial Schedules**

---



# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
John W. Northey, Legal Counsel



Deputy Legislative Auditors:  
Jim Pellegrini, Performance Audit  
Tori Hunthausen, IS Audit & Operations  
James Gillett, Financial-Compliance Audit

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited the accompanying Schedule of Changes in Fund Balances and Property Held in Trust for the fiscal year ended June 30, 2000, Schedule of Changes in Fund Balances for the fiscal year ended June 30, 2001, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Montana Department of Transportation for each of the fiscal years ended June 30, 2000 and 2001. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities, and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Montana Department of Transportation for each of the fiscal years ended June 30, 2000 and 2001, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

*(Signature on File)*

James Gillett, CPA  
Deputy Legislative Auditor

August 20, 2001



DEPARTMENT OF TRANSPORTATION  
SCHEDULE OF CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>	<u>Expendable Trust Fund</u>	<u>Nonexpendable Trust Fund</u>
FUND BALANCE: July 1, 2000	\$ <u>(738,294)</u>	\$ <u>67,490,691</u>	\$ <u>12,908,858</u>	\$ <u>755,468</u>	\$ <u>37,449,228</u>	\$ <u>1,906,459</u>	\$ <u>243,008</u>
ADDITIONS							
Budgeted Revenues & Transfers-In	1,278,684	474,860,467		138,436	20,447,075		12,782
NonBudgeted Revenues & Transfers-In		12,734,882	13,982,527	70	150,690	47,868	14,880
Prior Year Revenues & Transfers-In Adjustments		520,427			154,881		85
Direct Entries to Fund Balance	<u>(806,671)</u>	<u>(36,720,639)</u>			<u>7,149,581</u>		<u>(12,814)</u>
Total Additions	<u>472,013</u>	<u>451,395,137</u>	<u>13,982,527</u>	<u>138,506</u>	<u>27,902,227</u>	<u>47,868</u>	<u>14,933</u>
REDUCTIONS							
Budgeted Expenditure & Transfers-Out	250,000	425,524,479		87,811	25,161,777		
NonBudgeted Expenditure & Transfers-Out		27,392,878	13,641,535	611	(14,636,036)	300,115	15,465
Prior Year Expenditure & Transfers-Out Adjustments		<u>(179,801)</u>			<u>4,122,576</u>		
Total Reductions	<u>250,000</u>	<u>452,737,556</u>	<u>13,641,535</u>	<u>88,422</u>	<u>14,648,317</u>	<u>300,115</u>	<u>15,465</u>
FUND BALANCE: June 30, 2001	\$ <u><u>(516,281)</u></u>	\$ <u><u>66,148,272</u></u>	\$ <u><u>13,249,850</u></u>	\$ <u><u>805,552</u></u>	\$ <u><u>50,703,138</u></u>	\$ <u><u>1,654,212</u></u>	\$ <u><u>242,476</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF TRANSPORTATION  
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

	General Fund	Special Revenue Fund	Debt Service Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Expendable Trust Fund	Nonexpendable Trust Fund
FUND BALANCE: July 1, 1999	\$ (128,102)	\$ 56,487,150	\$ 12,645,701	\$ 703,930	\$ 42,639,068	\$ 0	\$ 2,135,310	\$ 242,190
PROPERTY HELD IN TRUST: July 1, 1999						0		
ADDITIONS								
Budgeted Revenues & Transfers-In	1,300,461	488,823,593		137,731	18,975,247			13,033
NonBudgeted Revenues & Transfers-In		14,137,764	13,932,717	42	50,078		59,416	13,782
Prior Year Revenues & Transfers-In Adjustments		1,016,589			92,320			1,341
Direct Entries to Fund Balance	(1,660,653)	(28,440,695)		(5,000)	4,696,167			(14,242)
Additions To Property Held in Trust						15,561		
Total Additions	(360,192)	475,537,251	13,932,717	132,773	23,813,812	15,561	59,416	13,914
REDUCTIONS								
Budgeted Expenditure & Transfers-Out	250,000	443,327,733		78,923	32,049,688			
NonBudgeted Expenditure & Transfers-Out		28,532,223	13,669,560	2,312	33,798,390		288,267	13,096
Prior Year Expenditure & Transfers-Out Adjustments		(7,326,246)			(36,844,426)			
Reductions in Property Held in Trust						15,561		
Total Reductions	250,000	464,533,710	13,669,560	81,235	29,003,652	15,561	288,267	13,096
FUND BALANCE: June 30, 2000	\$ (738,294)	\$ 67,490,691	\$ 12,908,858	\$ 755,468	\$ 37,449,228	\$ 0	\$ 1,906,459	\$ 243,008
PROPERTY HELD IN TRUST: June 30, 2000						0		

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF TRANSPORTATION  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	General Fund	Special Revenue Fund	Debt Service Fund	Enterprise Fund	Internal Service Fund	Expendable Trust Fund	Nonexpendable Trust Fund	Total
<b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>								
Licenses and Permits	\$ 1,278,684	\$ 31,848,359						\$ 33,127,043
Taxes		183,644,950		\$ 14	\$ 707		\$ 12,867	183,658,538
Charges for Services		4,061,183		7,968	20,390,596			24,459,747
Investment Earnings		25,669	\$ 398,656			\$ 47,868	14,880	487,073
Fines and Forfeits		113,578						113,578
Sale of Documents, Merchandise and Property		504,702			283,347			788,049
Rentals, Leases and Royalties		202,100		105,840				307,940
Miscellaneous		1,170,620		3,681	77,996			1,252,297
Grants, Contracts, Donations and Abandonments		280,133						280,133
Other Financing Sources		12,630,778	13,583,871	21,003				26,235,652
Federal		253,632,043						253,632,043
Federal Indirect Cost Recoveries		1,661						1,661
Total Revenues & Transfers-In	1,278,684	488,115,776	13,982,527	138,506	20,752,646	47,868	27,747	52,434,374
Less: Nonbudgeted Revenues & Transfers-In	0	12,734,882	13,982,527	70	150,690	47,868	14,880	26,930,917
Prior Year Revenues & Transfers-In Adjustments	0	520,427	0	0	154,881	0	85	675,393
Actual Budgeted Revenues & Transfers-In	1,278,684	474,860,467	0	138,436	20,447,075	0	12,782	496,737,444
Estimated Revenues & Transfers-In	1,368,726	415,743,218	0	141,300	19,629,337	0	7,126	436,889,707
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (90,042)	\$ 59,117,249	\$ 0	\$ (2,864)	\$ 817,738	\$ 0	\$ 5,656	\$ 59,847,737
<b>BUDGETED REVENUES &amp; TRANSFERS-IN OVER (under) ESTIMATED BY CLASS</b>								
Licenses and Permits	\$ (90,042)	\$ (5,979,857)						\$ (6,069,899)
Taxes		(2,520,697)						(2,515,041)
Charges for Services		1,961,820		\$ (32)	\$ 797,657		\$ 5,656	2,759,445
Investment Earnings		4,140						4,140
Fines and Forfeits		(136,422)						(136,422)
Sale of Documents, Merchandise and Property		(523,598)			1,825			(521,773)
Rentals, Leases and Royalties		110,246		11,040				121,286
Miscellaneous		673,843		125	18,256			692,224
Grants, Contracts, Donations and Abandonments		(59,388)						(59,388)
Other Financing Sources		(14,970)		(13,997)				(28,967)
Federal		65,629,971						65,629,971
Federal Indirect Cost Recoveries		(27,839)						(27,839)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (90,042)	\$ 59,117,249	\$ 0	\$ (2,864)	\$ 817,738	\$ 0	\$ 5,656	\$ 59,847,737

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.



**DEPARTMENT OF TRANSPORTATION**  
**SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

	General Fund	Special Revenue Fund	Debt Service Fund	Enterprise Fund	Internal Service Fund	Expendable Trust Fund	Nonexpendable Trust Fund	Total
<b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>								
Licenses and Permits	\$ 1,300,461	\$ 34,239,075						\$ 35,539,536
Taxes		206,938,616		\$ 42	\$ 452		\$ 14,374	206,953,484
Charges for Services		3,402,104		8,341	18,912,875			22,323,320
Investment Earnings		25,556	\$ 396,637			\$ 59,416	13,782	495,391
Fines and Forfeits		109,986						109,986
Sale of Documents, Merchandise and Property		553,696			202,755			756,451
Rentals, Leases and Royalties		169,916		111,585				281,501
Miscellaneous		808,918		2,662	1,563			813,143
Grants, Contracts, Donations and Abandonments		232,615						232,615
Other Financing Sources		14,741,931	13,536,080	15,143				28,293,154
Federal		242,743,205						242,743,205
Federal Indirect Cost Recoveries		12,328						12,328
Total Revenues & Transfers-In	1,300,461	503,977,946	13,932,717	137,773	19,117,645	59,416	28,156	538,554,114
Less: Nonbudgeted Revenues & Transfers-In	0	14,137,764	13,932,717	42	50,078	59,416	13,782	28,193,799
Prior Year Revenues & Transfers-In Adjustments	0	1,016,589	0	0	92,320	0	1,341	1,110,250
Actual Budgeted Revenues & Transfers-In	1,300,461	488,823,593	0	137,731	18,975,247	0	13,033	509,250,065
Estimated Revenues & Transfers-In	1,342,378	501,709,199	0	141,300	19,229,093	0	7,061	522,429,031
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (41,917)	\$ (12,885,606)	\$ 0	\$ (3,569)	\$ (253,846)	\$ 0	\$ 5,972	\$ (13,178,966)
<b>BUDGETED REVENUES &amp; TRANSFERS-IN OVER (under) ESTIMATED BY CLASS</b>								
Licenses and Permits	\$ (41,917)	\$ 1,472,205						\$ 1,430,288
Taxes		7,419,248						7,425,220
Charges for Services		1,121,587		\$ 341	\$ (231,218)		\$ 5,972	890,710
Investment Earnings		927						927
Fines and Forfeits		(176,566)						(176,566)
Sale of Documents, Merchandise and Property		(472,605)			10,809			(461,796)
Rentals, Leases and Royalties		82,199		16,785				98,984
Miscellaneous		112,871		(838)	(33,437)			78,596
Grants, Contracts, Donations and Abandonments		(121,975)						(121,975)
Other Financing Sources				(19,857)				(19,857)
Federal		(22,308,325)						(22,308,325)
Federal Indirect Cost Recoveries		(15,172)						(15,172)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (41,917)	\$ (12,885,606)	\$ 0	\$ (3,569)	\$ (253,846)	\$ 0	\$ 5,972	\$ (13,178,966)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial statements beginning on page A-11.

DEPARTMENT OF TRANSPORTATION  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

PROGRAM (SUBCLASS) NOT SPECIFIED	AERONAUTICS PROGRAM	CONSTRUCTION PROGRAM	DEBT SERVICE	EQUIPMENT PROGRAM	GENERAL OPERATIONS PROGRAM	INTERFUND TRANSFERS PROGRAM	MAINTENANCE PROGRAM	MOTOR CARRIER SERVICES DIV	STATE MOTOR POOL	TRANSPORTATION PLANNING DIV	Total
PROGRAM (SUBCLASS) EXPENDITURES & TRANSFERS-OUT BY OBJECT											
PERSONAL SERVICES											
SALARIES	\$ 330,231	\$ 35,971,965		\$ 3,830,307	\$ 5,260,820		\$ 24,457,564	\$ 3,018,958	\$ 156,457	\$ 2,216,613	\$ 75,242,915
OTHER COMPENSATION	4,300	3,950			525						8,775
EMPLOYEE BENEFITS	84,320	8,636,801		1,126,479	1,327,089		6,833,070	856,629	45,924	570,493	19,480,805
PERSONAL SERVICES-OTHER	(932)			33,656					1,725		34,449
Total	<u>\$ 0</u>	<u>417,919</u>	<u>44,612,716</u>	<u>\$ 0</u>	<u>4,990,442</u>	<u>6,588,434</u>	<u>\$ 0</u>	<u>31,290,634</u>	<u>3,875,587</u>	<u>204,106</u>	<u>94,766,944</u>
Operating Expenses											
Other Services	205,757	231,041,144		638,302	5,072,605		13,843,549	50,012	164,921	1,643,800	252,660,090
Supplies & Materials	52,626	1,599,817		4,000,437	748,334		1,853,840	81,234	671,659	117,964	9,125,911
COMMUNICATIONS	13,553	521,256		8,997	602,218		446,882	77,518	2,451	94,076	1,766,951
TRAVEL	51,060	2,232,618		45,335	271,550		229,511	85,523	77	196,873	3,112,547
Rent	12,309	2,830,009		4,970	296,059		14,108,474	168,990	64,800	94,019	17,579,630
UTILITIES	29,025	63,777		67,504			2,278,123	68,989	9,206	3,505	2,520,129
REPAIR & MAINTENANCE	43,014	1,082,055		2,886,536	159,395		15,844,536	96,560	192,310	4,763	20,309,169
OTHER EXPENSES	6,552,904	56,869	435,378	158,929	793,869		175,935	183,953	2,877	46,664	8,407,378
GOODS PURCHASED FOR RESALE	11,230			31							11,261
Total	<u>6,552,904</u>	<u>475,443</u>	<u>239,806,054</u>	<u>0</u>	<u>7,811,041</u>	<u>7,944,030</u>	<u>0</u>	<u>48,780,850</u>	<u>812,779</u>	<u>1,108,301</u>	<u>315,493,066</u>
Equipment & Intangible Assets											
Equipment	(15,044,325)	59,784	415,268	6,436,029	326,183		200,514		2,133,116	228,394	(5,245,037)
INTANGIBLE ASSETS			542,160		87,367						629,527
Total	<u>(15,044,325)</u>	<u>59,784</u>	<u>957,428</u>	<u>0</u>	<u>6,436,029</u>	<u>413,550</u>	<u>0</u>	<u>200,514</u>	<u>0</u>	<u>2,133,116</u>	<u>(4,615,510)</u>
CAPITAL OUTLAY											
LAND & INTEREST IN LAND	(346,064)	110,000	9,419,870				192,835		236,064		9,612,705
BUILDINGS	(487,304)	487,304									0
OTHER IMPROVEMENTS			1,880,260								1,880,260
Total	<u>(833,368)</u>	<u>597,304</u>	<u>11,300,130</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>192,835</u>	<u>0</u>	<u>236,064</u>	<u>0</u>	<u>11,492,965</u>
LOCAL ASSISTANCE											
FROM STATE SOURCES		246,260									246,260
FROM OTHER INCOME SOURCES			250,000								250,000
Total	<u>0</u>	<u>246,260</u>	<u>250,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>496,260</u>
GRANTS											
FROM STATE SOURCES		232,814	244,182		16,735,236					1,111,041	18,323,273
FROM FEDERAL SOURCES			1,922,685							2,037,624	3,960,309
FROM OTHER SOURCES										281,185	281,185
Total	<u>0</u>	<u>232,814</u>	<u>2,166,867</u>	<u>0</u>	<u>0</u>	<u>16,735,236</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,429,850</u>	<u>22,564,767</u>
TRANSFERS											
ACCOUNTING ENTITY TRANSFERS	21,003	1,161,279	(351,482)		1,125,000	25,344,822				78,906	27,379,528
Total	<u>0</u>	<u>21,003</u>	<u>1,161,279</u>	<u>(351,482)</u>	<u>0</u>	<u>1,125,000</u>	<u>25,344,822</u>	<u>0</u>	<u>0</u>	<u>78,906</u>	<u>27,379,528</u>
Debt Service											
BONDS				13,641,535	750				(5,000)		13,637,285
LOANS									359,087		359,087
INSTALLMENT PURCHASES		2,859							104,159		107,018
Total	<u>0</u>	<u>0</u>	<u>2,859</u>	<u>13,641,535</u>	<u>750</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>458,246</u>	<u>0</u>	<u>14,103,390</u>
Total Expenditures & Transfers-Out	<u>\$ (9,324,789)</u>	<u>\$ 2,050,527</u>	<u>\$ 300,257,333</u>	<u>\$ 13,290,053</u>	<u>\$ 19,237,512</u>	<u>\$ 32,807,000</u>	<u>\$ 25,344,822</u>	<u>\$ 80,464,833</u>	<u>\$ 4,688,366</u>	<u>\$ 4,139,833</u>	<u>\$ 481,681,410</u>
EXPENDITURES & TRANSFERS-OUT BY FUND											
General Fund			\$ 250,000								\$ 250,000
Special Revenue Fund	\$ 1,366,344	\$ 300,007,333		\$ (351,482)	\$ 32,807,000	\$ 25,344,822	\$ 80,464,833	\$ 4,688,366		\$ 8,410,340	452,737,556
Debt Service Fund				13,641,535							13,641,535
Enterprise Fund	(595,761)	684,183									88,422
Internal Service Fund	(8,729,028)				19,237,512				4,139,833		14,648,317
Expendable Trust Fund										300,115	300,115
Nonexpendable Trust Fund										15,465	15,465
Total Expenditures & Transfers-Out	<u>(9,324,789)</u>	<u>2,050,527</u>	<u>300,257,333</u>	<u>13,290,053</u>	<u>19,237,512</u>	<u>32,807,000</u>	<u>25,344,822</u>	<u>80,464,833</u>	<u>4,688,366</u>	<u>4,139,833</u>	<u>481,681,410</u>
Less: Nonbudgeted Expenditures & Transfers-Out	(13,447,755)	630,725	1,161,279	13,290,053	(2,014,972)	1,125,000	25,344,822	0	230,930	394,485	26,714,567
Prior Year Expenditures & Transfers-Out Adjustments	4,122,966	(5,406)	1,615	0	3,828	(79,084)	0	(964)	(19,567)	(4,218)	3,942,775
Actual Budgeted Expenditures & Transfers-Out	0	1,425,208	299,094,439	0	21,248,656	31,761,084	0	80,465,797	4,707,933	3,913,121	451,024,068
Budget Authority	0	1,805,394	333,692,888	0	21,948,796	32,762,587	0	91,615,123	5,002,278	3,928,548	500,666,955
Unspent Budget Authority	<u>\$ 0</u>	<u>\$ 380,186</u>	<u>\$ 34,598,449</u>	<u>\$ 0</u>	<u>\$ 700,140</u>	<u>\$ 1,001,503</u>	<u>\$ 0</u>	<u>\$ 11,149,326</u>	<u>\$ 294,345</u>	<u>\$ 15,427</u>	<u>\$ 49,642,887</u>
UNSPENT BUDGET AUTHORITY BY FUND											
General Fund											\$ 0
Special Revenue Fund	\$ 322,277	\$ 34,598,449			\$ 1,001,503		\$ 11,149,326	\$ 294,345		\$ 1,503,511	48,869,411
Debt Service Fund											0
Enterprise Fund	57,909										57,909
Internal Service Fund					\$ 700,140				\$ 15,427		715,567
Expendable Trust Fund											0
Nonexpendable Trust Fund											0
Unspent Budget Authority	<u>\$ 0</u>	<u>\$ 380,186</u>	<u>\$ 34,598,449</u>	<u>\$ 0</u>	<u>\$ 700,140</u>	<u>\$ 1,001,503</u>	<u>\$ 0</u>	<u>\$ 11,149,326</u>	<u>\$ 294,345</u>	<u>\$ 15,427</u>	<u>\$ 49,642,887</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA DEPARTMENT OF TRANSPORTATION  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

PROGRAM (SUBCLASS) NOT SPECIFIED	AERONAUTICS PROGRAM	CONSTRUCTION PROGRAM	EQUIPMENT PROGRAM	GENERAL OPERATIONS PROGRAM	MAINTENANCE PROGRAM	MOTOR CARRIER SERVICES DIV	STATE MOTOR POOL	TRANSPORTATION PLANNING DIV	TOTAL
PROGRAM SUBCLASS EXPENDITURES & TRANSFERS-OUT BY OBJECT									
PERSONAL SERVICES									
SALARIES	\$ 324,365	\$ 33,301,385	\$ 3,733,742	\$ 4,864,448	\$ 20,799,701	\$ 3,109,453	\$ 156,506	\$ 2,103,323	\$ 68,392,923
OTHER COMPENSATION	3,100	7,000		1,025					11,125
EMPLOYEE BENEFITS	86,468	8,080,938	1,131,908	1,072,174	6,036,148	849,162	47,081	524,767	17,828,646
PERSONAL SERVICES-OTHER	\$ 57,166								57,166
Total	57,166	413,933	41,389,323	4,865,650	5,937,647	26,835,849	3,958,615	203,587	86,289,860
Operating Expenses									
Other Services	288,267	125,983	255,116,007	670,694	5,108,366	12,357,269	91,637	151,548	273,135,154
Supplies & Materials	68	60,329	2,111,459	3,941,133	1,430,524	1,761,784	92,843	574,390	10,287,749
COMMUNICATIONS	33	11,870	483,182	9,970	571,258	329,878	70,962	2,335	1,557,712
TRAVEL		38,228	2,086,539	35,777	224,963	189,186	160,457	47	2,949,642
Rent		8,773	2,629,682	4,385	172,139	12,750,419	177,420	64,968	15,881,612
UTILITIES		26,446	51,089	62,105		1,866,602	49,407	7,550	2,066,558
REPAIR & MAINTENANCE		57,303	857,883	2,584,665	262,762	13,941,235	54,541	174,251	17,933,849
OTHER EXPENSES	6,266,697	23,061	443,724	143,537	792,586	201,946	167,617	4,244	8,104,935
GOODS PURCHASED FOR RESALE	15,352			(21)				61,523	15,331
Total	6,555,065	367,345	263,779,565	7,452,245	8,562,598	43,398,319	864,884	979,333	331,932,542
Equipment & Intangible Assets									
Equipment	(9,320,376)	1,105	736,619	14,695,333	410,025	160,392		3,446,825	10,164,243
INTANGIBLE ASSETS			197,823		16,066			6,000	219,889
Total	(9,320,376)	1,105	934,442	14,695,333	426,091	160,392	0	3,446,825	10,384,132
CAPITAL OUTLAY									
LAND & INTEREST IN LAND			11,191,658			66,384			11,258,042
OTHER IMPROVEMENTS			1,061,877						1,061,877
Total	0	0	12,253,535	0	0	66,384	0	0	12,319,919
LOCAL ASSISTANCE									
FROM STATE SOURCES		271,626							271,626
FROM OTHER INCOME SOURCES			250,000						250,000
Total	0	271,626	250,000	0	0	0	0	0	521,626
GRANTS									
FROM STATE SOURCES		58,550	308,329		16,838,762			732,562	17,938,203
FROM FEDERAL SOURCES			2,580,287					2,121,733	4,702,020
FROM OTHER SOURCES	13,096							235,905	249,001
Total	13,096	58,550	2,888,616	0	16,838,762	0	0	3,090,200	22,889,224
TRANSFERS									
ACCOUNTING ENTITY TRANSFERS	29,418,011	15,143							29,433,154
Total	29,418,011	15,143	0	0	0	0	0	0	29,433,154
Debt Service									
BONDS	13,669,560				750				13,670,310
INSTALLMENT PURCHASES			5,695				393,058		398,753
Total	13,669,560	0	5,695	0	750	0	393,058	0	14,069,063
Total Expenditures & Transfers-Out	\$ 40,392,522	\$ 1,127,702	\$ 321,501,176	\$ 27,013,228	\$ 31,765,848	\$ 70,460,944	\$ 4,823,499	\$ 5,022,803	\$ 507,839,520
EXPENDITURES & TRANSFERS-OUT BY FUND									
General Fund			\$ 250,000						\$ 250,000
Special Revenue Fund	\$ 29,451,667	\$ 1,048,778	321,251,176		\$ 31,765,848	\$ 70,460,944	\$ 4,823,499	\$ 5,731,798	464,533,710
Debt Service Fund	13,669,560								13,669,560
Enterprise Fund	2,311	78,924							81,235
Internal Service Fund	(3,032,379)			\$ 27,013,228			\$ 5,022,803		29,003,652
Expendable Trust Fund	288,267								288,267
Nonexpendable Trust Fund	13,096								13,096
Total Expenditures & Transfers-Out	40,392,522	1,127,702	321,501,176	27,013,228	31,765,848	70,460,944	4,823,499	5,022,803	507,839,520
Less: Nonbudgeted Expenditures & Transfers-Out	76,303,846	0	0	0	0	0	0	0	76,303,846
Prior Year Expenditures & Transfers-Out Adjustments	(35,911,324)	0	(6,539,497)	(8,592)	34,271	(313,222)	0	(5,067)	(44,170,673)
Actual Budgeted Expenditures & Transfers-Out	0	1,127,702	328,040,673	27,021,820	31,731,577	70,774,166	4,823,499	5,027,870	475,706,347
Budget Authority	0	1,772,631	379,606,206	27,053,974	32,719,482	75,681,661	4,909,336	5,041,369	535,819,234
Unspent Budget Authority	\$ 0	\$ 644,929	\$ 51,565,533	\$ 32,154	\$ 987,905	\$ 4,907,495	\$ 85,837	\$ 13,499	\$ 60,112,887
UNSPENT BUDGET AUTHORITY BY FUND									
General Fund									\$ 0
Special Revenue Fund		\$ 579,069	\$ 51,565,533		\$ 987,905	\$ 4,907,495	\$ 85,837	\$ 1,875,535	60,001,374
Debt Service Fund									0
Enterprise Fund		65,860							65,860
Internal Service Fund				\$ 32,154			\$ 13,499		45,653
Expendable Trust Fund									0
Nonexpendable Trust Fund	\$								0
Unspent Budget Authority	\$ 0	\$ 644,929	\$ 51,565,533	\$ 32,154	\$ 987,905	\$ 4,907,495	\$ 85,837	\$ 13,499	\$ 60,112,887

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial statements beginning on page A-11.

# Notes to the Financial Schedules

---

## 1. Summary of Significant Accounting Policies

---

### Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental and Expendable Trust Funds. In applying the modified accrual basis, the department records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual leave and sick leave when used or paid.

The department uses accrual basis accounting for Proprietary and Nonexpendable Trust Funds. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period earned when measurable and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

---

### Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

Accounts are organized in funds according to state law. The department uses the following funds:

## Notes to the Financial Schedules

---

### Governmental Funds

**General Fund** - to account for all financial resources except those required to be accounted for in another fund.

**Special Revenue Fund** - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. Department Special Revenue Funds include the Highway Special Revenue Account, Highway Non-Restricted Account, Petroleum Storage Tank Cleanup Account, Motor Fuel Tax Account, and Aeronautics Program Account. Department Special Revenue Funds also include federal activity such as Highway Planning & Construction, Federal Transportation Administration Grants, Airport Improvement, Rail Service Assistance and Highway Traffic Safety Program.

**Debt Service Fund** - to account for accumulated resources for the payment of General Long-term Debt Principal and Interest. The department uses this fund to account for the Series 1987 Highway Revenue Bonds and the Series 1993 Highway Revenue Refunding Bonds.

### Proprietary Funds

**Internal Service Fund** - to account for providing goods or services to other agencies or departments on a cost-reimbursement basis. Department Internal Service Funds include the State Motor Pool Account and the Highway Equipment Account.

**Enterprise Fund** - to account for operations (a) financed and operated in a manner similar to private business enterprises, where the legislature intends that the department finance or recover costs primarily through user charges; or (b) where the legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate. The department records activity related to the West Yellowstone airport in the Enterprise Fund.

### Fiduciary Funds

**Trust and Agency Funds** - to account for assets held by the State in a trustee capacity for individuals, private organizations, other governments or other funds. Department fiduciary funds include

## Notes to the Financial Schedules

---

Expendable Trust Funds and a Nonexpendable Trust Fund. The department used an Agency Fund as a clearing account during fiscal year 2000.

Expendable Trust Funds - are for the Woodville Highway Trust Account and the Rail Construction Trust Account. The Woodville Highway Trust accounts for proceeds and interest earned from the sale of a section of highway to the Anaconda Company. The department is holding these monies in trust with the intent they be used to improve Butte-Silver Bow area roadways. The Rail Construction Trust was established in 1993 due to a settlement agreement with the Burlington Northern Railroad Company under guidelines set forth by the Federal Rail Administration. Interest earnings from the fund can be used for rail rehabilitation projects in the state in accordance with federal regulations as outlined in the Local Rail Freight Assistance Program.

Nonexpendable Trust Fund - is the Moore-Sipple Rail Connector. The trust holds federal project funds to ensure the rail operator meets project agreement conditions.

---

### 2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. Each agency has authority to pay obligations from the statewide General Fund within its appropriation limits. Each agency expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets the agency has placed in the fund, resulting in negative ending General Fund balances for each of the two fiscal years ended June 30, 2000 and June 30, 2001.

---

### 3. Expenditure Program (Sub-class)

As part of the implementation of a new accounting system in fiscal year 2000, state officials determined that a sub-class designation would identify the program to which expenditure should be charged. State officials did not require non-budgeted expenditure transactions to be identified to a sub-class until fiscal year 2001. The program designations in the Schedule of Total Expenditures & Transfers-Out

## Notes to the Financial Schedules

---

for the fiscal year ended June 30, 2000, are based on the sub-class designation used when the expenditures were recorded. The accounting system did not require agencies to code non-budgeted accounts with a subclass code identifying the expenditure program in which the activity occurred until fiscal year 2001. This non-budgeted activity is included in the column titled Program (Sub-Class) Not Specified on the Schedule of Total Expenditures & Transfers-Out For the Fiscal Year Ended June 30, 2000.

### 4. Long-Term Debt

The following information identifies the department's long-term debt balances as of June 30, 2001.

#### Outstanding Bond Debt

	<u>Bond Series</u>	<u>Amount Issued</u>	<u>Interest Range (%)</u>	<u>Principal Outstanding at 6/30/01</u>
Highway Revenue Bonds	1993	\$112,040,000	2.5-5.2	\$29,270,000

#### Bond Debt Payment

Bond activity is recorded in the Debt Service Fund. The fund accounts for the annual debt payments as nonbudgeted activity. Amounts presented by the Debt Service Fund - Schedule of Changes in Fund Balances are essentially bond debt payments. Future payment requirements are as follows:

#### 1993 Highway Revenue Refunding Bonds

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 12,470,000	\$ 1,153,603	\$ 13,623,603
2003	13,095,000	514,478	13,609,478
2004	<u>3,705,000</u>	<u>93,551</u>	<u>3,798,551</u>
TOTAL	<u>\$ 29,270,000</u>	<u>\$ 1,761,632</u>	<u>\$ 31,031,632</u>

## Notes to the Financial Schedules

---

### Intercap Loan

The Board of Investments provides loans to the department to finance or refinance the acquisition of vehicles for the State Motor Pool. The loan balance as of June 30, 2001, was \$5,718,448.

---

### **5. Intrafund and Interfund Activity**

During the normal course of operations, the department has transactions within funds and between funds to finance operations, provide services, and service debt. The following describes the interfund and intrafund activity for the two fiscal years ending June 30, 2001.

---

#### **Equipment Program**

The Equipment Program, which is part of the Internal Service Fund, maintains a fleet of equipment and vehicles for use within the department. Costs are recovered through user fees charged to other programs within the department. Charges for services revenue is recorded in the Internal Service Fund for the rent of the equipment and the user program records rent expense. The major programs using equipment are the Maintenance Program, the Construction Program, and the Motor Carrier Services Program.

---

#### **Transfers**

During fiscal year 2000 and 2001, \$14,741,930 and \$13,614,711, respectively, was transferred from the Highway Non-Restricted Account to the Highway Special Revenue Account.

During fiscal years 2000 and 2001, \$13,536,080 and \$13,583,871, respectively, was transferred from the Highway Special Revenue Account to the Debt Service Account for bond payments.

---

### **6. Highway Construction Commitments**

At June 30, 2001, the department had contractual commitments of approximately \$160,000,000 for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matching state special revenue funds.



## **Department Response**

---



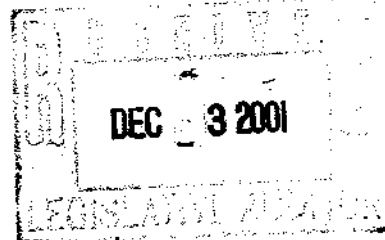


**Montana Department of Transportation**

2701 Prospect Avenue  
PO Box 201001  
Helena MT 59620-1001

David A. Galt, Director  
Judy Martz, Governor

November 29, 2001



Scott A. Seacat  
Legislative Auditor  
Room 135  
State Capitol  
Helena, MT 59620

Subject: Financial Compliance Audit for fiscal years 1999-2000 and 2000-2001.

Dear Scott,

I am sending our detailed response to the audit performed by your office for the two fiscal years ending June 30, 2001. Thank you for your staff's effort, cooperation, and professionalism during this audit.

As always, this department is committed to complying with state and federal laws, implementing and maintaining effective accounting controls, and presenting an accurate and fair financial picture.

I'm returning four copies of the report, as you requested.

Sincerely,

David A. Galt  
Director

copy: Monte Brown, Administration Division Administrator  
Dennis Sheehy, Internal Audit Unit Manager

*Montana Department of Transportation*



***LAD Audit Recommendations and Agency Responses***

***Recommendation # 1***

***A. Complete work as soon as possible to determine Federal Highway Administration (FHWA) participation in the three contractor claims totaling \$1,310,000.***

**Response**

Concur

The Montana Department of Transportation (MDT) and FHWA are currently working together to secure Federal participation for the claims.

***B. Communicate with FHWA concerning contractor claims as required by federal regulations and department policy and procedures.***

**Response**

Concur

In order to secure federal participation in claim settlements the Construction Bureau has taken the following steps:

1. FHWA will be invited to have an attendee at all future Board of Contractor Appeals meetings, and will be supplied with an agenda beforehand.
2. The seriousness of the risk associated with not keeping FHWA informed on claim negotiations and settlements has been discussed with the district construction engineers and Construction Bureau staff involved in these processes. These personnel have agreed to the necessity of keeping FHWA informed.
3. MDT recognizes the need to address concerns regarding customer and public service in this area, and has requested the Legislative Audit Division's assistance in completing a performance audit of the contractor payment process.

***Recommendation #2***

***We recommend the department develop and implement procedures to ensure timely deposits in accordance with state law.***

**Response**

Concur

A policy was drafted with the Legal Services Division outlining procedures for receiving and holding monies in compliance with state law.

**Recommendation #3**

*A. Develop and implement procedures for monitoring tribal disbursement to ensure overpayment do not occur.*

**Response**

Concur

This was a one-time error that has been corrected. We changed the method of payment where we no longer use the Recurring Voucher feature of SABHRS. Second, reconciliation of the Tribal Refunds Org. Unit has been assigned to staff.

*B. Obtain reimbursement of \$233,000 for the overpayment made to the tribe.*

**Response**

Concur

Reimbursement has been received from the tribe.

**Recommendation #4**

*A. Monitor existing procedures to ensure appropriate accounting for the issuance, custody, and return of cash change funds.*

**Response**

Concur

New procedures and forms are being developed and will be implemented in fiscal year 2002 to ensure that the cash change funds are properly monitored and recorded.

*B. Correctly record the cash change funds on the state's accounting system.*

**Response**

Concur

See the response to Recommendation 4A above.

**Recommendation #5**

*We recommend the department establish and implement procedures to ensure required aviation registration fee distributions are made in accordance with state law.*

**Response**

Concur

Procedures to better schedule the distributions and add the July distribution to the Accounting Services Bureau's Fiscal Year End process have been established between the Aeronautics Division and the Accounting Services Bureau.

**Recommendation #6**

*We recommend the department establish and implement procedures to ensure all federal funds subgranted are monitored in accordance with federal regulations.*

**Response**

Concur

As a result of past audits, the Accounting Services Bureau informed offices in MDT about the requirement for sub-recipient monitoring, but no follow up was done to ensure compliance. The Accounting Services Bureau will develop and implement procedures during fiscal year 2002 to:

- Identify the offices that are sub-granting federal monies, and
- Determine that those programs are in compliance with OMB Circular A-87.

**Recommendation #7**

*A. Require the maintenance and Administration Divisions to coordinate efforts in the development of its internal service fund rates.*

**Response**

Concur

The Maintenance Division has initiated steps to assure this coordination.

*B. Complete and document reconciliations between management systems and primary accounting records and maintain documentation to support factors used in rate calculations.*

**Response**

Concur

The Maintenance Division will maintain documentation to support factors used in rate calculations.

The Accounting Services Bureau will work with the Maintenance Division and the Information Services Bureau to develop a process to reconcile between the management system and the primary accounting records.

*C. Determine the profit or loss in the internal service funds on an annual basis as required by OMB Circular A-87 and modify future rates as needed.*

**Response**

Concur

The Maintenance Division will comply with OMB Circular A-87 and modify future rates as needed.